



*City of Nashua*  
*Wastewater Fund Rate/Revenue Requirement Analysis*  
*April 2013*

*Presented on 5/6/2013 to Personnel / Administrative Affairs Committee*

# Wastewater Fund Rate/Revenue Requirements Analysis

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- Analysis of the Wastewater Fund for FY13 through FY19
  - Unrestricted Net Assets as of June 30, 2012 - \$5,044,891
  - Estimated Revenues – FY13 - \$10.6M
    - Volumetric Revenues – Approximately 60% of User Fee Revenue
    - Demand Revenues – Approximately 40% of User Fee Revenue
  - Estimated Revenues – FY19 - \$17.0M
  - Estimated Debt Service Payments - FY13 - \$2.3M
  - Estimated Debt Service Payments – FY15 - \$5.0M
- Current issues impacting the Wastewater Fund include:
  - EPA Consent Order
  - Resulting in approximately \$70M in Capital Projects
  - Aging Infrastructure – Sewer System & Treatment Plant
  - State Aid Grant Funding – Revenue Reduction of \$20M over 9 years

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## Assumptions

- User Fees calculated using a Volumetric Rate + Demand Rate
- Current Average Quarterly User Bill:
  - Residential \$68.65 @ 2,500 Cubic Feet (cf)

Average Residential Annual Bill - \$274.60

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## Background

- Last rate analysis completed March 2011 resulted in 15% user fee rate/revenue increase effective July 1, 2011 (FY12).
  - FY12 Rate Increase was applied as follows:
    - 15% Increase in Volumetric Rate
    - 15% Increase Demand Rate
- History of Rate Adjustments:
  - FY04 Volumetric Rate Reduced from \$1.67 to \$1.22 per 100 cf
  - FY10 Volumetric Rate Increased from \$1.22 to \$1.55 per 100 cf
  - FY12 Volumetric Rate Increased from \$1.55 to \$1.78 per 100 cf

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## Recommendation:

- Approval of a 15% increase in the wastewater user fee rates effective July 1, 2013:
  - FY14 Volumetric Rate Increase from \$1.78 to \$2.05 per 100 cf;
  - FY14 Average Quarterly Residential Demand Charge Increase from \$24.15 to \$27.77
  - FY14 Average Annual Residential Bill - \$316.08
  - Annual Increase - \$41.48

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## Revenue Analysis

- The wastewater user fee rates are comprised of two components – volumetric and demand. It is recommended that the rate increase be applied to both components.
- Increasing both rate components spreads the rate increase more evenly among all customers and provides the City with a more consistent source of revenue.
- The demand charge is more constant and would allow for improved forecasting. The volumetric component is more volatile and could result in revenues coming in lower than forecast.
- In order to achieve the necessary revenue requirements by applying rate increases to the volumetric component only, the percentage increase in the volumetric rate would be 26%.

### **Volumetric & Demand Rates** **Recommended FY14**

<b>Rate Increase</b>	<b>Average Quarterly Billing Increase</b>
<b>15%</b>	<b>\$10.37</b>

### **Volumetric Rate Only FY14**

<b>Rate Increase</b>	<b>Average Quarterly Billing Increase</b>
<b>26%</b>	<b>\$11.50</b>

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## Community Comparison

- Below is a comparison of user fees with the proposed 15% increase for Nashua residents to similar communities in New Hampshire:

	Nashua	Derry	Manchester	Concord	Keene
Volumetric Rate per100 cf	\$2.05	\$2.98	\$3.47	\$4.13	\$5.36
Fixed Demand Charge – Annual	\$111.08	\$142.64	\$111.40	\$148.68	\$114.20
Average Annual Residential Bill	\$316.08	\$425.74	\$445.60	\$545.16	\$800.00

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## State Aid Grant (SAG) Program – Funding Deferral

- The Wastewater Fund receives most of its revenue from user fees. The Fund also received funding through the State Aid Grant Program towards the cost of wastewater projects.
- The SAG Program was deferred in FY09 and as a result the City has not received any SAG funds on new completed projects since the deferral.
- The State continues to defer funding of State Aid Grants for new projects.
- The deferment reduced the City's anticipated grant funds for wastewater related projects by approximately \$20 million.
- To be conservative, the current Wastewater Fund Rate/Revenue Requirement Analysis does not include any future SAG revenue at this time.



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## Cost Analysis

- ▣ Capital Equipment Replacement
  - The Analysis includes the cost of operations, several capital projects, as well as an updated capital equipment replacement schedule.
  - Capital equipment replacement costs for the next three fiscal years are projected as follows:
    - ▣ FY13 \$2.3 million
    - ▣ FY14 \$1.6 million
    - ▣ FY15 \$2.6 million

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## Summary

- ❑ Moving forward with the recommended revenue increase and debt financing should allow the City to:
  - Fund normal operating costs;
  - Meet the EPA Consent Decree deadlines;
  - Adequately fund reserves for future equipment needs;
  - Fund improvements to infrastructure – sewer system & treatment plant
  - Pay for debt incurred to fund large capital projects not paid for with reserves or unrestricted net assets.